

**ACCOUNTING PROCEDURES  
ARIZONA DEPARTMENT OF EDUCATION STATE AND FEDERAL FINANCIAL ASSISTANCE**

**GUIDELINES**

Concurrently, under the provisions of Arizona Revised Statutes (A.R.S.) §§15-251, 15-231(B)(2), 15-271(B) and 15-271(C)(4) , the Arizona Department of Education (ADE) and the Office of the Auditor General share responsibility for specifying the method by which all revenues, state and federal, are accounted for.

In accordance with A.R.S. §15-206(A), “The State Board of Education may accept on behalf of this state from any federal agency monies which have been appropriated by act of Congress for defense in education, reduction of illiteracy, teaching of immigrants, employment and training, educational support services or other educational purpose.” The State Board of Education "shall be the chief educational authority for the administration and supervision of the expenditures of federal appropriations" A.R.S. §15-206(C). A.R.S. §15-203(A)(7) authorizes the State Board of Education to delegate the execution of Board policies to the ADE through the Superintendent of Public Instruction.

In order to apply for and receive grant funding, potential subrecipients must have a signed General Statement of Assurance on file in the ADE Grants Management office. Subrecipients may then apply for the appropriated funds by submitting their applications to the responsible ADE program office in accordance with ADE and grant policies and regulations. Notice of fund availability is published on the ADE Grants Management web site under Fund Profiles (linked from the ADE homepage at [www.ade.az.gov](http://www.ade.az.gov)). A downloadable Handbook that explains all of the processes found on the Grants Management webpages is also available there, or a bound Handbook may be requested directly from the Grants Management unit.

Project funds allocated to a district should be deposited directly with the county treasurer into an appropriate fund to the credit of the district. These funds will be disbursed by the county treasurer by way of a warrant from the county school superintendent (See page VI-G-7). An exception to this would be school districts operating independently of county school superintendents (districts participating in the Accounting Responsibility Program or ARP, formerly known as pilot districts). ARP districts are those with a student count of at least four thousand and which have been approved by the State Board of Education to assume autonomous accounting responsibility (A.R.S §15-914.01.A). ARP districts issue their vouchers and receive their own warrants directly.

If a subrecipient expends funds other than as provided by the federal or state grant guidelines or other than as provided by the ADE or program guidelines, the ADE may withhold future payments, request that funds be returned, and/or deobligate the project award (i.e. decrease or eliminate a previously committed fund balance). The ADE may also withhold project or grant funding if a subrecipient fails to establish and maintain the Uniform System of Financial Records as prescribed by A.R.S. §§15-271(D) and (E), and Arizona Administrative Code (AAC) R7-2-804.

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The unexpended federal or state project funds from the preceding year (local carryover money), subject to program regulations and approval, may be used to meet the initial obligations of the current year's approved project where funds have not yet been distributed. The funds may be used **ONLY** in the same program as originally assigned unless allowed by the authorizing statute. Once current year funds are received, the expenditures should be transferred to the current-year project.

## **APPLICATIONS**

Local Educational Agencies are eligible to apply for federal or state grants administered by the ADE. Depending upon the particular program requirements, eligible applicants may apply for grant assistance each year.

Applications for grant funding must be submitted, in accordance with program office requirements, to the ADE via the Internet. Applications containing unclear or inaccurate information will be returned to the applicant agency or clarified via telephone or E-mail. The goal of the ADE is to finalize all applications and obtain State Board approval within 90 days of the original submittal date. The approved project award will be entered into the Grants Management System, enabling warrants to be issued per the approved payment schedule. Approval notification will be sent to the subrecipient.

All state and federal grant awards are subject to specific terms of the grant. Projects generally are granted for one fiscal year beginning July 1<sup>st</sup> and ending June 30<sup>th</sup> of the following calendar year. All state grants end June 30<sup>th</sup>; however, some federal projects may extend the project period beyond June 30<sup>th</sup>.

State project payments to subrecipients are made in accordance with the schedule identified on the approved project. Federal project cash advances are driven by the first payment request in the application, and then by data entered in the monthly cash management report. Funds for projects on "hold" (i.e., funds withheld due to a noncompliance) as of the project end date will not be released until a completion report is approved and the final payment will only be released to reimburse the program costs incurred or to bring the account to a zero balance, whichever is less.

### **Budgets**

Budgets should be entered by line item. Line items should be detailed on the budget description page. The budgeted indirect cost amount may not exceed the approved rate times the project budget subtotal. The subtotal of a budget is all line items, excluding the Indirect Cost and Capital Outlayline items. Some grants may restrict or disallow the use of indirect costs.

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The purchase of any textbooks, library books and instructional aids (e.g., instructional computer software, workbooks, films, kits) should be budgeted as supplies.

Capital items must be itemized on the Capital Outlay Justification page of the grant application according to program guidelines, but may be restricted by statute or program guidelines for some projects.

If there are questions regarding budgeting or capital outlay justification, the respective ADE program office should be contacted for guidance on appropriate expenditures.

Payment schedules for state grants should follow program guidelines. See Cash Management section for information about payment schedules for federal projects.

## **INDIRECT COST RATE**

### **Subrecipient Indirect Cost Rates**

Indirect costs apply ONLY to federally funded projects. The use of indirect costs is NOT allowed for all federal projects and may be restricted for others. 34 CFR §75.560 - .564 authorizes the payment to subrecipients and counties for the indirect costs incurred in the handling of certain grants. The calculation of indirect cost rates follow a plan formulated by the ADE based on the cost principles in OMB Circular A-87 and are approved by the U.S. Department of Education (USDOE). Subrecipients' indirect costs are those expenses that are incurred for the joint benefit of more than one project and cannot be readily and specifically identified with a particular project without effort disproportionate to the results achieved. The approved rate for districts is a percentage calculated from their Annual Financial Report (AFR) and approved by the ADE Audit Resolution unit. To receive an indirect cost rate calculation, the district should request such on the AFR by checking the box and supplying the additional information requested on page 8, section D. Other entities must provide their Indirect Cost Rate to the ADE Audit Resolution unit in one of two ways: 1) via the A-87 Cost Allocation Plan acceptance letter from a federal agency, or 2) via a copy of the A-87 Cost Allocation Plan acceptance letter assigning the entity an indirect cost rate from the agency acting as their cognizant agency.

The approved indirect cost rate appears as a separate line item on the project budget page. Although indirect costs may be budgeted based on the subtotal amount of the application or amendment, the maximum indirect costs payable may not exceed the indirect cost rates times the actual subtotal expenditures reported in the completion report and rounded down to the nearest cent. Charging indirect costs to federal projects does not increase the award total. The indirect cost rate in effect at the project starting date is to be used for the entire project period. The amount that

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the County School Superintendent's office receives for performing district completion report services should also be considered part of the district's indirect costs.

Each district requesting a rate receives a restricted indirect cost rate and a nonrestricted indirect cost rate. The restricted indirect cost rate is to be used for federal programs that contain a supplement not supplant requirement (for example, Title I, IDEA, Vocational Education, etc). The nonrestricted rate is used for all other programs, such as National School Lunch.

#### **County Indirect Cost Rate**

The County Indirect Cost Rate must be calculated and approved by the ADE Audit Resolution unit.

## **AMENDMENTS**

Approved state or federally funded projects may be amended to reflect changes in line item allocations, additional funds, and/or carryover monies, subject to program regulations. Amendments must be submitted to the ADE via the Internet. The deadline for accepting amendment requests for an approved project is 90 days prior to the project end date. Amendments can be fiscal or programmatic in nature, or a combination of both.

#### **Fiscal Amendments**

Fiscal amendments must be submitted and approved prior to increasing or decreasing line item budgets and/or allocations, and include but are not limited to the following:

- The carryover of prior-year funds and/or changes in allocation, which increases the total budget.
- Local carryover funds that reduce the allocation, but do not change the total budget.
- Increasing a line item (excluding the indirect cost line item) when the anticipated expenditures will exceed the budgeted line item by 20% or \$1,000 (whichever is greater).
- Increasing or decreasing line item amounts to reflect actual budget priorities, with or without changing the budget total.

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- Changing a need, goal, objective and/or activity that affect the budgetary line items from those originally approved.
- Changing a detailed budget capital item or existing item description, even if the line item amount is unchanged.

#### **Programmatic Amendments**

Programmatic amendments must be submitted and approved prior to:

- Changing staff duties or responsibilities without changing the budget line items.
- Changing the type of contractual services from the approved budget without changing the budget line item amount.
- Modifying the intent, focus, goal(s) or objective(s) of the project.
- Extending the project end date beyond the original approved date as long as the period of obligation does not exceed the statutory period of obligation and the budget total remains the same. Note: State projects must end no later than June 30 of a fiscal year.

### **CASH MANAGEMENT (FEDERAL PROJECTS ONLY)**

Procedures for minimizing the time elapsed between the transfer of funds from the U. S. Treasury and disbursement by subrecipients must be followed whenever advance payment procedures are used [34 CFR §80.20(b)(7)]. Pass-through entities must ensure that subrecipients conform substantially to the same timing requirements that apply to the pass-through entity.

To accomplish this, the ADE requires the submission of cash management reports indicating the adjusted cash balance of all federally funded Assistance projects, and federally funded Assistance contracts (unless based strictly on invoice/reimbursement, i.e., exempt). A monthly cash management report is required for all cash-advanced federal projects, irrespective of the budget total.

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How to budget the first cash advance (online application process):

**Thirty day need**

- **Miscellaneous Administrative Expenses** are requisitions, purchase orders, and/or two payroll periods not to exceed a thirty (30) day accumulation and/or
- **Capital Expenses** are those for the acquisition and/or improvement of equipment, land and buildings that have a useful life of one year or more. Cash advances for capital expenses may be budgeted upfront or throughout the project year as needed, not to exceed the amount budgeted in the capital outlay line item, not to exceed a thirty (30) day accumulation.

The subrecipient should budget the first cash advance according to expenses for a period not to exceed 30 days, minus local carryover already approved into the project. The remainder should be budgeted in the RSP (Remaining Scheduled Payment). The online *cash management report* will be used to indicate subsequent months' compliance and immediate needs (refer to next section for criteria). The county school superintendent's approval is not required.

**Subsequent monthly cash advances and cash management reporting**

An electronic cash management report is due monthly between the 1<sup>st</sup> and 18<sup>th</sup> of every month, beginning in the first month that a federal project cash advance is made or local carryover is indicated in the project, whichever comes first. The electronic system will accept a late report (after the 18<sup>th</sup>) but the project will be on cash management hold and no cash advance will be made in the following month.

The cash management report requires the subrecipient to enter two pieces of data: 1) the project's cash balance and 2) project encumbrances/requisitions for the next calendar month. A *cash balance* is the total of all project revenue to date (current year project monies received from the ADE, plus amended/approved local carryover and/or amended/approved local interest), after expenses, which remains in the project account on the date of the report. For this report, encumbrances/requisitions should include requisitions, received but unpaid invoices, and/or payroll not to exceed 30 days accumulation each. Upon submission of this data, the electronic grants system will calculate the *adjusted* cash balance as the difference between the two (the cash balance minus encumbrances).

Subrecipients may not accumulate excess cash. In order to maintain ADE cash management compliance, subrecipients must not accumulate more than a 0.0% *adjusted* cash balance. If excess cash is indicated in the cash management report, no cash advance will be made. The ADE may further request excess cash to be remitted back to the Department whenever it is indicated in a cash management report. Do not remit project funds without first contacting the ADE or until directed to do so.

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If a negative adjusted cash balance is indicated in a cash management report, subrecipients will be cash advanced that amount, provided that no project holds exist and that the amount does not exceed the amount of unreleased funds for that project. The exception is the final cash management report, which only assesses compliance.

Cash management reports are due monthly throughout the life of the project or until such time as all projects funds have been advanced and there is no remaining cash on hand, as reported in the cash management report. If at any time thereafter the subrecipient discovers or encounters funds belonging to the project that were previously reported as fully expended, it is the subrecipient's responsibility to submit subsequent cash management reports until such time as the project budget is once again reported as fully expended.

## COMPLETION REPORTS

The ADE requires project completion reports to satisfy the financial reporting requirements of each grant. The reports must be submitted for all state and federal grants/projects (34 CFR §80.20(b)(1), A.R.S. 35-190 (E), 35-172, and 35-131 (D) (H).

Completion reports **MUST** be submitted to the ADE via the Internet within 90 days after the project end date or sooner if required by specific program guidelines. **There is no grace period.** If a completion report and/or any required narrative data is NOT received by the ADE within 90 days after the project end date, further payments to the subrecipient on the current-year project will be suspended until the ADE is in receipt of a valid report. If the county school superintendent's office handles a subrecipient's (districts) financial activities, it is the subrecipient's responsibility to allow the county ample time to approve the report within that 90-day period. Completion reports that are rejected must be corrected and resubmitted to the ADE within 30 days after the rejection date, or further payments to the subrecipient on the current-year project will be suspended until receipt of a valid report. Upon program office approval of a valid report, if there is negative cash on hand and the full allocation has not yet been released, funds will then be released up to the amount remaining or to bring the balance to zero, whichever is less.

If a subrecipient can no longer substantially and meaningfully fulfill the requirements of a project due to school closure or inability to complete the term or intent of the grant/project, a completion report will be due to the ADE within 90 days after the last day that the subrecipient substantially and meaningfully conducted business related to the grant/project and its intent.

The figure reported as cash on hand **MUST** be in agreement with the figure at the county treasurer's office or banking institution. Discrepancies must be resolved before being submitted to the ADE.

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If the county school superintendent's office handles the financial activities, the county level user I.D. (electronic signature in the form of a username and password) will be accepted as the valid county level signature.

Actual expenditures or outlays must be reconciled with budgeted amounts for each grant [34 CFR §80.20(b)(4)]. A budgeted line item may not be exceeded by more than 20% or \$1,000, whichever is greater. Indirect costs are exempt from this allowance; indirect costs may be recovered only to the extent that the indirect cost rate is applied to the amount expended (the allowable rate times the actual subtotal expenditures) or by more stringent program guidelines, whichever is less.

Actual expenditures reported may not exceed the total budget. A line item with a zero budget may not reflect any expenditures. If funds were used for unapproved expenditures, the subrecipient should make an adjustment, preferably prior to submitting the completion report to the ADE.

In the event a completion report reflects an unauthorized expenditure or an over-expenditure, the subrecipient has three options: 1) the amount of the adjustment can be transferred from local funds to the appropriate federal or state program within 60 days of the submission of the completion report, 2) a fiscal override may be requested from the program office at the time the completion report is submitted, or 3) subject to program rules and regulations, the current-year project may be amended to include the transfer of local funds, and documentation of the transfer may be required to be forwarded to the appropriate ADE program office. The program office may elect to interrupt payments if the transfer has not been documented. The subrecipient may appeal the interruption of payments or repayment of misapplied or misspent funds following the procedures in AAC R7-2-805. In cases where there is not a continuing project, the amount reported as overexpended or the amount of the unapproved expenditures must be returned to the ADE. Failure to comply within 60 days may result in the withholding of funds in accordance with A.R.S. §§15-210, 15-271 and AAC R7-2-802.



## **RETURN OF FUNDS**

All returned funds must be clearly identified by project number and source of funds (interest, project funds, disallowances, etc.) and returned immediately after demand by the ADE. Where applicable, the completion report email should accompany the returned funds.

Funds to be immediately returned include the following:

- In most instances, funds remaining in a project that is not funded in a subsequent year must be returned to the ADE Accounting Office.
- If program regulations require the return of funds at the end of a project period, those funds must be returned to the ADE Accounting Office.
- If the completion report reflects an over-expenditure or unauthorized expenditure, those funds may be required to be returned to the ADE Accounting Office.
- Expired funds from a federal grant or the interest earned from expired funds may not be carried over or amended into subsequent years. These funds **MUST** be returned to the ADE Accounting Office. Subrecipients must avoid allowing federal funds to expire by amending the project or returning funds as soon as directed by the program office.
- Expired and/or unidentified funds discovered through audits or other findings **MUST** be returned to the ADE Accounting Office along with the interest earned on those funds.

## **CARRYOVER OF FUNDS**

The ability to carryover balances and/or interest remaining from a prior-year's project varies depending upon legislation and funding guidelines. Program-specific information should be obtained through the appropriate program office. Once a completion report is approved and the subrecipient is directed to amend prior-year funds, the carryover **MUST** be amended into the current-year project within 30 days. All amendments must be submitted electronically at least 90 days prior to the current-year project end date. Failure to amend within the specified timelines may result in the loss of funds. Refer also to VI-F-6 and VI-F-7 for information regarding Carryover of State Funds.

## **INTEREST**

The following rules and regulations apply to interest earned on federal and state projects:

- Interest earned from pooled investments is to be apportioned, at least quarterly, to the fund earning the interest based on its average monthly cash balance.
- Interest earned on state and federal funds administered by the ADE must remain with each fund that generated the interest subject to the limitations below.
- Interest earned on advances of federal funds in excess of \$100 per grant during the fiscal year [34 CFR §80.21(i)] MUST be returned to the ADE Accounting Office at least quarterly. However, in accordance with the Intergovernmental Cooperation Act, the Bureau of Indian Affairs/Johnson O'Malley, Public Law 81-815 and Public Law 81-874 programs are currently exempt from the preceding rule.
- Interest earned on state grant funds may be retained by the subrecipient and expended for the same purpose as the original allocation and has no dollar limit. Interest may be carried over into the current-year project if the project is for the same purpose. Interest must be returned to the ADE Accounting Office if the project is discontinued or program guidelines require it. Refer also to VI-F-6 and VI-F-7 for information regarding Carryover of State Funds.
- Interest earned on expired funds must be returned to the ADE Accounting Office.

## **AUDIT OF FEDERAL PROGRAMS**

### **The Single Audit Report**

The Single Audit Act Amendments of 1996, under the guidelines of the Office of Management and Budget (OMB) Circular A-133, requires subrecipients to have a single audit if the subrecipient expended \$500,000 or more in federal awards in any fiscal year. The ADE is required to have a copy of the Single Audit on file. If federal fund expenditures meet or exceed \$500,000 during a fiscal year, the district must contract for a Single Audit. See A.R.S. 15-914 A. though F.

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Subrecipients have 9 months after the end of their fiscal year to submit the Single Audit results to the ADE Audit Resolution unit to be considered compliant with this requirement. Subrecipients will receive two notices from the ADE Audit Resolution unit prior to the due date. If by the due date the subrecipient has not submitted the necessary documentation nor provided substantiating evidence of an ongoing audit and a reasonable explanation for the lateness of such, subrecipients will receive a 30-day notice to comply. Subrecipients not compliant after the 30-day notice will be subject to interruption of all federal project payments disbursed by the ADE until such time as the Single Audit has been performed and the results sent to the ADE.

#### **Audit Findings**

To comply with federal audit regulations, all audit findings must be resolved within six months from the date the audit is received by the ADE Audit Resolution unit. When a subrecipient resolves all audit findings, the ADE Audit Resolution unit will send a Final Letter of Determination to the subrecipient's board and a copy to the subrecipient's chief executive officer indicating that the subrecipient's corrective action is acceptable for all audit findings.

Should all audit findings not be resolved within the six month time limit, the subrecipient is subject to having current-year funding suspended for the affected programs. The ADE Audit Resolution unit will send a notice of unresolved audit findings to the subrecipient's superintendent, with a copy to the subrecipient's governing board, and a copy to the ADE program office of any findings unresolved at 120 days after receipt of the audit by the ADE Audit Resolution unit. The notice will state what appropriate corrective action must be taken and by when for timely audit resolution. It will also indicate that failure to respond timely may interrupt current-year funding for the project. If unresolved audit findings still remain after 150 days, a Preliminary Letter of Determination will be sent from the ADE Audit Resolution unit to the subrecipient's superintendent, with a copy to the subrecipient's governing board, and a copy to the ADE program office. The notice will state what audit findings are still not resolved with the appropriate corrective action and the due date for audit resolution before suspension of current-year funding. The letter will also state that the subrecipient has the right to request an audit resolution review within 15 days of receiving the letter. The Audit Resolution Review Panel will be composed of the ADE Audit Resolution Office Manager and a staff member from each affected ADE program office. If audit findings are not resolved by the end of the six months, a Letter of Final Determination will be issued citing the appropriate corrective action for the subrecipient and suspending current-year funding until the findings are resolved.

The letter will also state the subrecipient's right to appeal the repayment of misspent or misapplied funds to the Superintendent of Public Instruction (State Superintendent) within 30 days of receipt of the Letter of Final Determination under AAC R7-2-805. The State Superintendent shall select a hearing appeals panel from ADE staff. However, no panel member will be selected from the program office responsible for administering the federal program from which the appeal arose. A

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hearing shall be scheduled before the appeals panel within 30 days from the receipt of the request for appeal. The complainant will be given at least 10 days' notice of the hearing date. The complainant may waive this 10-day notice. No later than five days after the hearing, the appeals panel shall forward its recommendation to the State Superintendent and within 10 days after the hearing shall issue his or her ruling. If the State Superintendent determines that the Department's action was contrary to the statutes and regulations that govern the applicable program, the State Superintendent shall rescind the action. If the State Superintendent does not rescind the action, the applicant may appeal to the USDOE within 20 days after being notified by certified mail of the State Superintendent's decision.

## **PROGRAMMATIC WAIVERS**

A subrecipient may submit to the ADE, on its own behalf or for a school within the district, a request for a waiver of any statutory or regulatory requirements as permitted by federal statute or state and federal regulation. (Reference 34 CFR §75.900 and A.R.S. 15-256.) The ADE will provide a Waiver Request Form to assist the subrecipient in applying for waivers. Federal waiver requests for the upcoming school year must be submitted to the ADE Audit Resolution unit by March 1<sup>st</sup> of the current school year. Contact the ADE program office regarding waivers governing program regulations.

## **COMPLIANCE CHECKLIST**

This compliance checklist was developed to assist districts in establishing and maintaining adequate controls over state and federal grants/projects and may be used to evaluate compliance with USFR requirements. Questions are phrased in such a way that “Yes” answers indicate satisfactory conditions while “No” answers indicate possible weaknesses that should be corrected.

### Applications

- 1) Does the applicant entity have a current General Statement of Assurance on file in the ADE Grants Management Office, signed by an authorized representative(s) in blue ink?
- 2) If the grant is competitive, did the application reach the ADE by 5pm on the deadline? (Postmarks are not accepted.)
- 3) Does the applicant entity have a current ADE approved Indirect Cost Rate on file at the ADE?
- 4) Did the applicant entity use the Chart of Accounts found in section III to determine appropriate coding of line items?
- 5) Did the applicant entity meet all requirements for the application as specified by the program guidelines including any required narratives?

### Amendments

- 1) Did the subrecipient amend allowable carryover and interest into the current year project within 30 days after being given program office approval to do so?
- 2) If needed, did the subrecipient submit an amendment (fiscal and/or programmatic) to a project no later than 90 days before the project end date?
- 3) Did the subrecipient receive approval from the appropriate program office prior to initiating requested changes?

### Cash Management Reports (Federal Projects)

- 1) Did the subrecipient submit cash management reports for cash advanced Federal projects between the 1<sup>st</sup> and 18<sup>th</sup> of every eligible month?
- 2) Did the subrecipient maintain an adjusted cash balance at or below the 0.0% allowable balance?
- 3) Did the subrecipient include as encumbrances/requisitions only those expenses that did not exceed a thirty (30) day accumulation?

### Interest

- 1) Did the subrecipient remit (to the ADE Accounting office) interest earned on advances of federal funds in excess of \$100 at least quarterly?

### Completion Reports

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- 1) Did the subrecipient submit a completion report to the ADE within 90 days after the project end date?
- 2) Did the subrecipient abide by the program office demand to amend or return funds, and in a timely manner?
- 3) Did the subrecipient also submit any required completion report narratives or other data to the program office?

#### Audit of Federal Programs

- 1) If the subrecipient expended \$500,000 or more in federal awards during a fiscal year, did the subrecipient have an organization-wide Single Audit and remit the results to the ADE Audit Resolution, USDOE, and the Arizona Auditor General's Office?